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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN

Commissioner – Chairman

CARL J. KUNASEK

Commissioner

TONY WEST

Commissioner

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Arizona Corporation Commission

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IN THE MATTER OF THE COMPETITION IN) DOCKET NO. RE00000C-94-165
THE PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA) NOTICE OF FILING

City of Tucson hereby provides Notice of Filing Comments on the name of document. The City expects to make additional comments at the public hearing before the Commission.

DATED this 13th day of May, 1999.

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Tucson, AZ 85726-7210

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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN

Commissioner – Chairman

TONY WEST

Commissioner

CARL J. KUNASEK,

Commissioner

IN THE MATTER OF THE COMPLETION IN
THE PROVISION OF ELECTRIC SERVICES
THROUGHOUT THE STATE OF ARIZONA

) DOCKET NO. RE-00000C-94-165
)
) CITY OF TUCSON'S COMMENTS ON
) THE RECOMMENDATIONS
) OF THE HEARING OFFICER
) REGARDING ELECTRIC
) COMPETITION RULEMAKING

The City of Tucson makes the following comments on the Proposed Electric Competition Rules:

R14-2-1601 (28)- Net Metering or "Net Billing"

The City recommends that this definition not be stricken from the Rules. Even if the solar portfolio requirements are being eliminated, the potential for site generation using any sort of technology is still very possible, but not necessarily on a mandated basis. Simply strike the words "solar electric" from the present definition.

R14-2-1601 (36) Clarification of the Elimination of Self Aggregation

The explanation for the change in R14-2-1601 (36) dealing with self-aggregation is not sufficient for the City to understand why the change is being made. The explanation refers to Staff's amendments to APS'S proposed Schedule 10. Staff's amendments are not available to the City. The City requests a more complete explanation of the reasons for and impact of the deletion of the definition of self-aggregation.

R14-2-1604 Phase-In

The City of Tucson's experience with the phase-in points up the difficulty of pursuing a phase-in. In particular, the City desires to have its entire load served competitively, but the phase-in rule precludes competitive service for facilities less than 40 kW, which include many City premises. Thus, the City cannot acquire competitive energy supplies for its entire aggregated load. The restriction on the City's ability to shop around for its entire load is arbitrary and costly.

The rule should eliminate the phase-in and substitute a "flash cut." The phase-in was originally intended to limit Affected Utilities exposure to unforeseen problems with software, generation, transmission, accounting, record keeping, etc., if a huge number of customers suddenly selected competitive power providers. Based on the experience in California, only a limited number of customers will likely initially participate in a fully competitive market, thereby obviating the need for the phase-in.

During the latter part of 1998, the City of Tucson was making preparations to procure power for its eligible loads according to the original schedule for competition, with a target date of 1/1/99. It has been the experience of the City that the requirements imposed during the phase-in period have been a source of misunderstanding and possible conflict. A considerable amount of staff time had been devoted to identifying which loads may become eligible without resolution. It is our concern that all customers with similar loads will face similar challenges which will simply introduce one more barrier to participation for an entire category of customers.

On August 3rd, 1998, the City of Tucson filed comments on this Rule in this Docket. A Executive Summary is attached and incorporated herein.

R14-2-1606 (B) Purchase of Power for Standard Offer Service

R14-2-1606 (B) indicates that power purchased by a Utility Distribution Company to provide Standard Offer Service shall be acquired through the "open market." The meaning of "open market" is not clear. Presumably the rule means a competitive procurement with prudent hedges against price fluctuations and other uncertainties. As the rule is now constructed, a Utility Distribution Company could purchase all of its Standard Offer power supply on the spot market, subjecting it and its customers to large fluctuations in price, and still be in compliance with the rule.

The City proposes that the sentence read: "... power purchased by a Utility Distribution Company to provide Standard Offer Service shall be acquired through ~~the open market~~ through a competitive procurement with prudent management of market risks, including management of price fluctuations."

R14-2-1609 Solar Portfolio Standard

The solar portfolio standard (R14-2-1609) should be retained. It may be desirable to modify the standard to make it more practical, but the complete elimination of the solar requirements is poor public policy. The Commission has the opportunity to promote an environmentally friendly energy technology and many consumers would like the opportunity to obtain solar power. The solar portfolio standard helps ensure that solar power will be available to those who demand it. The cost of the Solar Portfolio standard is minor as compared to stranded costs. As Commissioner Irvin points out in his dissenting opinion, 2/3 of the citizens of Arizona support environmental energy development in Arizona. In the absence of the solar portfolio standard, it is doubtful that competitive energy suppliers or utility distribution companies will install sufficient solar capacity to fully serve the demand for solar energy. This has been evidenced by the utilities lack in meeting past goals for solar generated electricity. The standard encourages suppliers to serve a market segment that would otherwise not be able to buy the blends of solar and conventional energy that they are willing to pay for. The Solar Portfolio standard provides the correct incentives for Affected Utilities and ESPs to diversify their generation sources with solar generated electricity in a cost effective manner.

Proposed Docket Number : E-00000A-99-0205 Environmental Portfolio Standard

The City is supportive of Commissioner Kunasek's proposed Environmental Portfolio Standard (April 8, 1999 letter) as a substitute for the Solar Portfolio Standard and intend to fully participate in the public hearing process for that standard. The environmental portfolio standard should be formulated to follow the intent of the solar portfolio standard.

R14-2-1610 (F) Transmission and Distribution Access

Strike this section.

In the months since the last version of the Rules, there have been indications that the original concept of forward compatibility of the AISA (then ISA) was not entirely realistic. If this was correct, then the implementation of a successor organization such as an ISO would be more expensive than originally anticipated. Additionally, in the past year, the emphasis in Arizona has been geared more towards an ISO as ISA, or "ISO Light", in consideration of the costs, complexities and failures experienced in California and by INDEGO. The development of a more complex and expensive organization should be only in response for a real need in the competitive market that would drive the expansion of the mission and increase the scope of tasks executed by the AISA.

1 The establishment of Qualified Facilities and emergence of Independent Power
2 Producers has been a factor in legislation restructuring the electrical industry. Along
3 with legislative developments there has been a technological trend tending to site
4 new generation closer to the load. Increasing reliance on transmission lines may
5 have a nebulous future. Without direct insight into that future, it is advised that we
6 allow the market to determine these needs and respond accordingly as opposed to
7 mandating a pre-ordained response.

8 **R14-2-1612 (C) Rates**

9 Delete this paragraph. It is unclear why competitively negotiated contracts should be
10 treated differently before January 1, 2001, than after.

11 **R14-2-1612 (D) Rates**

12 Delete the first sentence.

13 **R14-2-1613 – Service Quality, Consumer Protection, Safety and Billing**
14 **Requirements**

15 **R14-2-1613 (I) Return to Standard Offer Service**

16 R14-2-1613 (I) indicates that the return of a customer to Standard Offer Service
17 would be at the next billing cycle if appropriate metering equipment is in place and
18 the request is processed 15 calendar days prior to the next regular read date. The
19 limitations should be altered to comport with the DASR Handbook (dated September
20 24, 1998) and to avoid situations where a Utility Distribution Company might not want
21 to accept the customers for Standard Offer Service. The limitations may also invent
22 meter problems or delay processing the request, leaving the consumer unable to
23 return to Standard Offer service.

24 Therefore, Paragraph I should read as follows (with the strike out indicating language
25 that should be deleted): "Electric Service Providers shall give at least 5 days notice
26 to their customer and to the appropriate Utility Distribution Company of scheduled
return to Standard Offer Service, but that return of that customer to Standard Offer
Service would be at the next regular billing cycle, ~~if appropriate metering equipment
is in place, and the request is processed 15 calendar days prior to the next regular
read date.~~ Electric Service Providers shall provide 15 calendar days notice prior to
the next scheduled meter reading date to the appropriate Utility Distribution Company
regarding the intent to terminate a service agreement. Responsibility for charges
incurred between the notice and the next scheduled read date shall rest with the
Electric Service Provider."

RI4-2-1613 (K) (6)

The City of Tucson requests that the 20 kW demand threshold be re-evaluated. ATTACHMENT C states that the thresholds are still in place, based on an initial review. For a more in depth review, we refer you to the City's Comments filed previously in this Docket on August 3rd, 1998, and to the presentations delivered by SRP and XENERGY at the ACC Metering meeting of 5/18/98. The Executive Summary of the August 3rd filing is attached hereto.

RI4-2-1616 Affiliate transactions

The lengthy and detailed rule guiding affiliate transactions as been stricken entirely. In its place the commission has substituted a rule consisting of one paragraph requiring an Affected Utility to file a proposed "code of conduct" to prevent anti-competitive activity between itself and its affiliates. This proposed "code" is subject to Commission approval.

The revised rule reveals to the public no standards or criteria against which the Commission will measure the proposed codes. There are no guidelines relating to books, records and accounting procedures. There are no prohibitions regarding shared facilities or employees, and no standards on advertising or cross-subsidization. Gone are the provision of information rules and the requirements for non-discrimination and for compliance plans.

Former 1616 may have been flawed or incomplete but it provided a framework against which utilities and consumers could measure conduct. The proposed rule offers no such criteria. The new rule permits each affected utility to propose its own guidelines for anti-competitive behavior. The burden to show that these guidelines are adequate has been shifted to the consumer. The consuming public is now faced with showing that a practice is anti-competitive with no guiding criteria.

The City of Tucson urges the Commission to promulgate affiliate transaction rules with sufficient detail to assure the public that there is adequate Commission oversight of these relationships.

RI4-2-1617 Disclosure of Information


The proposed changes to the disclosure section will effectively make the disclosure of significant and vital information voluntary for the suppliers (i.e. composition of resource portfolio, fuel mix characteristics, and emission characteristics). In other words, this information is available upon request. Experience has shown in other states that consumers, particularly small customers, prefer a more environmentally sound mix of resources than traditional suppliers have in their portfolios. Many "alternative suppliers" utilize a green message in their marketing. It's certainly probable that at least one customer of each supplier will ask for this information, thus

1 it will have to be developed. Therefore, the only rationale for not providing it to
2 customers automatically is to hide the resource mix. Such action would be the
3 antithesis of the goal of open supply competition in Arizona.

4 **R14-2-203 Service Establishments**

5 R14-2-203 (D)(4) indicates that service establishments with an Electric Service
6 Provider will be scheduled for the next regular meter read date if the direct access
7 service request (DASR) is processed 15 calendar days prior to that date and
8 appropriate metering equipment is in place. The rule involves actions by the Electric
9 Service Provider, the Utility Distribution Company processing a DASR, and possibly a
metering provider. The rule should be rewritten to clearly set time limits for actions
by each party and to avoid incentives to delay processing DASR's or meter changes.

10 DATED this 13th day of May, 1999.

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1 AN ORIGINAL AND TEN COPIES
2 of the foregoing City of Tucson's
3 Comments on the Recommendations
4 Of the Hearing Officer Regarding
5 Electric Competition Rulemaking
6 filed this 14th day of May, 1999, with:

7 Docket Control
8 Arizona Corporation Commission
9 1200 W. Washington
10 Phoenix AZ 85007

11 Copies of the foregoing mailed
12 This 14th day of May, 1999, to:

13 Service List for RE-00000C-94-0165
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E.1 INTRODUCTION

This position paper analyzes and critiques two key provisions of recent rule amendments regarding the opening of retail electricity competition in Arizona. Section 2 examines the revised phase-in rules in Section R14-2-1604 (Competitive Phases). Section 3 scrutinizes the interval meter mandate in section J of R14-2-1613 (Service Quality, Consumer Protection, Safety, and Billing Requirements).

E.2 PARTICIPATION THRESHOLDS

E.2.1 The new phase-in rules, by making nearly all small customers ineligible for the first phase of retail choice, run counter to both the letter and spirit of existing Arizona rules and statutes.

- The new phase-in rules would make nearly all small customers ineligible for the first phase of retail choice with no real compensation.
- The existing phase-in rules (those predating the proposed changes) as well as HB 2663, clearly intend small customers to have a sizable presence in the first phase of retail choice.
- The ACC staff has declared the existing phase-in schedule “unworkable,” but has not explained why, despite many opportunities. Specifically the staff has not explained:
 - ◆ what technical or logistical barriers the utilities are still facing;
 - ◆ why the incumbent utilities have been unable to overcome these barriers, even though they have known about the January 1, 1999, phase-in date for nearly two years;
 - ◆ why the utilities will be able to accommodate some residential customers but not additional ones;
 - ◆ why the utilities will be able to handle customers that peak above 40 kW but not those that peak below 40 kW;
 - ◆ where the 40 kW threshold came from;
 - ◆ why the incumbent utilities cannot accommodate quantities of small customers that the public power entities will have to accommodate; and
 - ◆ why non-residential customers that peak at less than 1 MW have to aggregate to participate in retail choice.
- The new phase-in rules are inconsistent with the ACC staff’s stated desire to make its own retail access rules consistent with HB 2663.
- The ACC staff is discarding rules that resulted from extensive deliberations involving a broad range of stakeholders, and replacing them with unsubstantiated suggestions from utilities.
- The affected parties have been given little time to respond to these major changes in the rules.

E.2.2 Arizona's barriers to small customer participation are characteristic of a "big dogs eat first" approach to retail access that the large majority of restructuring states have rejected.

Table E-1
States That Give Small Customers
Equal Access to Retail Choice

State	Electricity Sales* (Thousands of MWH)	Small Customers Get Equal Access to Retail Choice?
California	218,812	√
New York	131,527	In most service territories
Pennsylvania	127,623	√
Illinois	126,231	?
Michigan	96,302	√
New Jersey	66,889	√
Massachusetts	47,294	√
Connecticut	28,417	√
Montana	13,820	
Maine	11,726	√
New Hampshire	9,127	√
Rhode Island	6,604	

*Source: U.S. Energy Information, *Electric Power Annual 1996* (published February 1998).

- Since all customer classes must bear the costs of electric restructuring, all customers should reap its benefits in an equitable manner.

E.2.3 The 40 kW threshold will produce lengthy competitive inequities between similarly sized commercial customers

- Arizona's 40 kW threshold will have the dangerous effect of creating competitive inequities between customers of similar size and category of business.
- The irony of this 40 kW threshold is that it could be punishing electric customers who have engaged in activities – such as improving energy efficiency and shaving peak loads – that the state should be encouraging.
- Arizona's long "small customer waiting period" would exacerbate the effects of these competitive inequities. Of the states and utilities that make most residential and small commercial customers wait for retail choice, the proposed Arizona rules would make small customers wait the longest.

Table E-2
Small Customer Waiting Periods for States/Utilities
That Do Not Give Small Customers Equal Access to Retail

State/Utility	Mandatory Eligibility Date for Larger Customers	Mandatory Eligibility Date for Most Smaller Customers	Small Customer Waiting Period
Rhode Island	7/97	1/98	6 months
New York (Niagara Mohawk)	11/98	4/99	6 months
New York (NYSEG)	8/98	8/99	12 months
Montana (MPC)	7/98	12/99	17 months*
Arizona	1/99	1/01	24 months

- The long waiting period would hurt non-participants not only because they would have to wait longer to seek a better price for their power. Rather, there is also a high likelihood that few good deals would be available by the time the smaller customers become eligible. If the early participants were able to sign long-term contracts, it is possible that their competitive advantages would extend beyond two years.

E.2.4 Wide participation by smaller customers early in the retail access process will not harm Arizona electric system reliability.

- The argument that small customer participation should be restricted because it will make forecasting loads less complicated for the ISO has little merit. The California Public Utility Commission (CPUC) also considered limiting early participation to aggregators and very large customers for this reason, but rejected the idea. The CPUC realized that schedule coordinators would perform a second level of aggregation in addition to the aggregation naturally provided by aggregators and other marketers.
- If the ACC wants to improve further the accuracy of load forecasts there are more effective policies it might consider including:
 - ♦ certifying schedule coordinators for creditworthiness and technical competence, as is done in California;
 - ♦ pushing to have the new ISO perform “top-down” forecasting as is done by the PJM-ISO; and
 - ♦ supporting the imposition of penalties on schedule coordinators that submit forecasts that are not within a certain range of accuracy.
- It is likely that Arizona UDCs are overcautious about load forecasting and scheduling not because they fear for the reliability of the electric system, but because they are concerned about their cash flows. Better policies (than delaying small customer participation) to address this problem include:
 - ♦ ISO procedures that allow for day-after settlement would be a more targeted solution for the cash flow problems of the UDCs;
 - ♦ Making strict bonding requirements part of the certification procedures for both ESPs and Schedule Coordinators; and

- ♦ ISA or ISO requirements that all suppliers have capacity reserves and other ancillary services.

E.2.5 The claim that small customer participation in direct access must be delayed to prepare the market infrastructure is unfounded.

- Under the new, proposed phase-in schedule, the utilities will still have to develop their metering, billing, and data exchange systems to accommodate at least ½ of 1 percent of the residential customers by July 1, 1999. Therefore the biggest logistical challenge, the development and implementation of these systems, will still have to be met under the proposed rules.
- Even to serve a small fraction of the load, the data and software systems will have to handle each possible type of transaction and address all logical possibilities, however rare. Expanding these systems to larger numbers of customers does not require changes to information flow or system logic, only to storage capacity.
- It is very unlikely that early demand for retail choice will overwhelm the systems of the Arizona utilities, based on the experience of states with actively competitive markets.
- Almost all the restructuring states have allowed small customers equal access to retail choice in the first phases. Many of these states, like California and Pennsylvania, have many more utilities and electric customers than Arizona, and therefore face more complicated metering, billing, and data exchange logistics.
- Arizona utilities also have an advantage over utilities in states such as California, Massachusetts, and Rhode Island because they have been able to observe the practices, innovations, and mistakes of those that have gone before.
- The Arizona utilities have known about the phase-in date for nearly two years, and thus have had adequate time to prepare their systems.
- There is no guarantee that extending the deadlines for the Arizona utilities would not simply allow them to delay further any meaningful progress to establishing mechanisms for retail competition, and request another delay as the new deadlines near.

E.3 IT IS NOT COST-EFFECTIVE TO REQUIRE ARIZONA CUSTOMERS OVER 20 kW TO PURCHASE AN INTERVAL METER.

E.3.1 The interval meter requirement is a form of "reregulation" that would prevent customers from choosing the level of the metering they need.

- At a time when the ACC is trying to stimulate choice and innovation in metering services, it is surprising that the ACC is introducing a regulation that would dictate the type of meters that customers must use for retail choice.
- The proposed interval meter mandate is written so broadly that many customers would have to install expensive meters for loads with extremely predictable load profiles. For example, under the proposed rules, street lights and traffic lights would have to be interval metered.

E.3.2 Interval meters are uneconomic for many customers who peak above 20 kW and this could deter them from participating in retail choice.

- Some advocates for interval meter requirements have cited a "meter affordability" analysis by Southern California Edison to justify these requirements. However, there are a number of problems with that analysis including:
 - ◆ unrealistically high retail choice savings assumptions.
 - ◆ savings estimates that are dependent on the availability of a California billing option called Real Time Pricing (RTP). There is a possibility that Arizona customers may have more difficulty obtaining these RTP options than California customers.
 - ◆ The SCE analysis fails to acknowledge that these meter requirements would still deter many customers from participating in direct access, even though interval meters were "affordable," according to SCE's narrow definition. This is an important consideration for policymakers who wish to stimulate competition in their electric markets.

E.3.3 From a societal perspective, load profiling is much more cost-effective than interval meter requirements.

- A more fundamental problem with the SCE analysis, however, is the limited way it frames the cost and benefit question. The question should not be whether customers in the 20-50 kW range can afford an interval meter, but whether society will benefit from requiring such meters.
- Analysis for the Electric Power Research Institute (EPRI) using actual Salt River Project customer data, shows that the costs of interval metering requirements far outweigh their benefits. No matter what interval meter cut-off level was used (the peak demand level above which customers must use interval meters) the benefit-cost ratio was less than 0.05.

E.3.4 Errors due to load profiling may be small compared to other errors and uncertainties in the system.

Uncertainties and errors in load scheduling and settlement come from several sources besides load profiling. These sources include

- inaccurate or inappropriate assignment of loss factors to customers in different voltage classes
- load forecast model estimation error for a given set of weather conditions
- day-ahead weather forecast error
- market price volatility
- generation supply availability.

All of these errors and uncertainties in the system would be present even if all customers had hourly metering. At the same time, load profiling methods are available that can provide estimates with small errors and uncertainties. Thus, the emphasis on load profiling error as the problem, and interval metering as the solution, is misplaced.

On June 23, 1998, the Arizona Corporation Commission (ACC) Staff released the first draft of amendments to the electric competition rules that the ACC had issued in December 1996 as part of Decision No. 59943. On July 10, the ACC circulated a second set of rules with additional changes for informal comment. On July 15, 16, and 17, the ACC held public meetings in Phoenix, Tucson, and Flagstaff. The ACC released a final version of the proposed rule changes on July 24, 1998.

This position paper, prepared on behalf of the City of Tucson by XENERGY Consulting Inc., analyzes and critiques two key provisions of these recent rule amendments. Section 2 examines the revised phase-in rules in Section R14-2-1604 (Competitive Phases). Section 3 scrutinizes the interval meter mandate in section J of R14-2-1613 (Service Quality, Consumer Protection, Safety, and Billing Requirements).